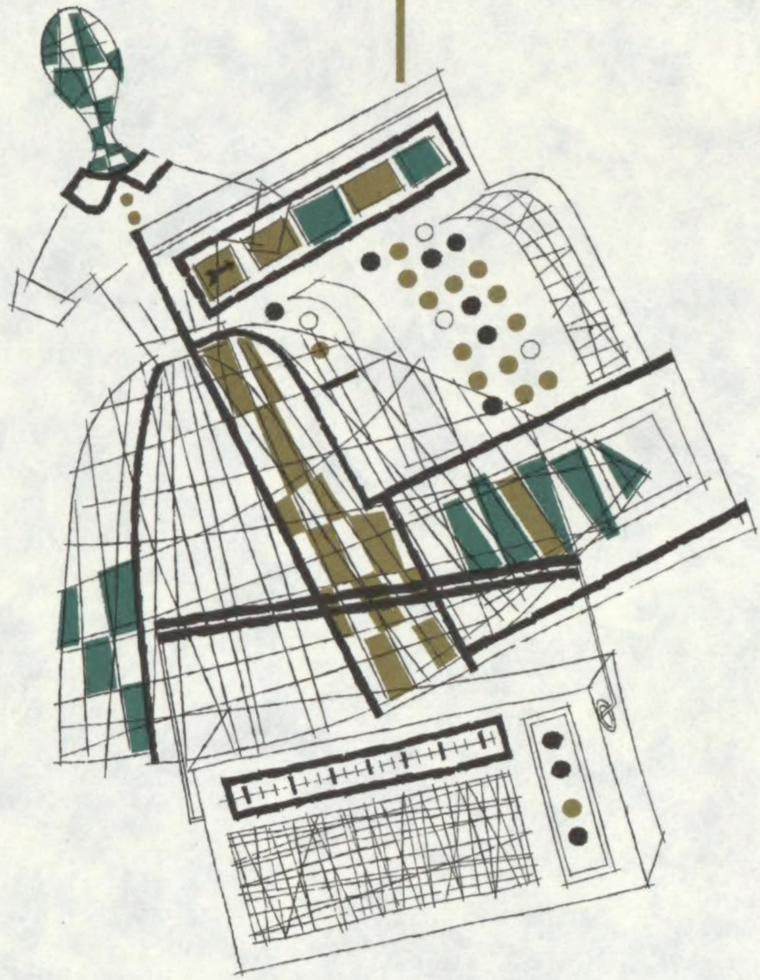
INTERSTATE DEPARTMENT STORES, INC.

ANNUAL REPORT 1967

YEAR ENDED JANUARY 31, 1968



DISCOUNT STORES

WHITE FRONT STORES

CALIFORNIA
Anaheim
Canoga Park
Concord
Costa Mesa
Covina
Downey
La Mesa
East Los Angeles
Los Angeles
West Los Angeles
Oakland
Ontario
Pacoima
Sacramento
San Jose
San Bernardino
Sunnyvale
Torrance
Van Nuys
Fresno
South Sacramento
South San Francisco
San Diego

WASHINGTON
Burien**
Seattle
Tacoma

TOPPS STORES

CONNECTICUT
Berlin
Fairfield
Hartford - Windsor
East Hartford
Middletown
West Haven

ILLINOIS
Chicago - Addison
Chicago - Arlington Heights
Chicago - LaGrange
Chicago - Morton Grove
Chicago Heights
Elgin
Joliet
Waukegan

INDIANA
Gary
Greenwood
Highland
Indianapolis - 38th Street
Indianapolis - Speedway
Terre Haute

KENTUCKY
Louisville - Hikes Point
Louisville - Outer Loop

MARYLAND
Baltimore - Dundalk
Baltimore - Perring Parkway
Baltimore - Pike Park Mall
Baltimore - Timonium

MASSACHUSETTS
Fall River
(Kerr Mill Bargain Center)
Springfield
West Springfield

MICHIGAN
Ann Arbor**
Detroit - Oak Park
Detroit - Redford
Detroit - Southgate
Detroit - Warren
Detroit - Wayne
Kalamazoo
Lansing

NEW JERSEY
Totowa, Rt. 46

NEW YORK
Albany
Buffalo - Cheektowaga
Buffalo - Tonawanda
Buffalo - Orchard Park
Rochester
Rochester - Greece

OHIO
Canton
Canton - Stark
Cleveland - Maple Heights
Cleveland - Mayfield Heights
Cleveland - Parma Heights
Columbus (E. Livingston)**
Toledo

WISCONSIN
Green Bay*
Kenosha
Madison

* *Closed January, 1968*
** *Opened March, 1968*

CHILDREN'S SUPERMART STORES

MARYLAND
Adelphi
Marlow Heights
Rockville

VIRGINIA
Bailey's Crossroads
Fairfax

CONVENTIONAL DEPARTMENT STORES

ILLINOIS
Aurora Dry Goods, Aurora
Carroll House, Belleville
Peoria Dry Goods, Peoria
Rockford Dry Goods, Loves Park
Rockford Dry Goods, Rockford
Waukegan Dry Goods Co., Waukegan

INDIANA
The Evansville Store, Evansville
The Evansville Store, Lawndale
Stillman's, Fort Wayne
Stillman's, South Gate
Hill's, Marion
Stillman's, Muncie
Hill's, Vincennes

KENTUCKY
Jefferson Dry Goods, Louisville
Paducah Dry Goods Co., Paducah

MICHIGAN
George W. Toeller Co., Battle Creek
The Fair, Flint
The Fair, North Flint
Stillman's, Jackson
Carroll House, Port Huron

NEW YORK
Boston Store, Latham
Boston Store, Massena
Stanley's, Troy
Boston Store, Utica

OHIO
The Boston Store, Springfield

PENNSYLVANIA
Carroll House, Williamsport

SOUTH CAROLINA
Bailes, Anderson

TENNESSEE
The Knox, Knoxville

VERMONT
Economy Department Store, Rutland

WEST VIRGINIA
The Huntington Store, Huntington

WISCONSIN
Fond du Lac Department Store, Fond du Lac
Hill's Department Store, Sheboygan

Financial Highlights

	1967	1966
Total Sales	**$558,082,000**	$505,017,000
Net Income before Taxes	**17,797,000**	17,340,000
Net Income after Taxes	**10,197,000**	9,790,000
Earnings Per Share*	**2.16**	2.13
Dividends Per Share—Cash*	**.48**	.46
—Stock Dividends	**—**	4%
—Stock Splits	**5-for-4**	—
Working Capital	**$ 56,409,000**	$ 37,641,000
Stockholders' Equity	**66,706,000**	57,843,000

**Based on average number of shares for each year, adjusted to give effect to all stock dividends and stock splits.*

To our Stockholders

Last year was an eventful one for Interstate. We opened 12 more stores, increasing our number to 113 as at the end of the year and successfully entered a new market area, the Pacific Northwest.

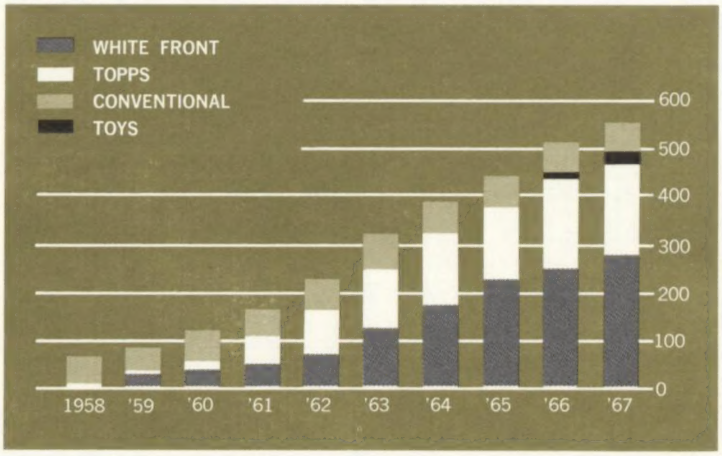
The full effects of our progress were not reflected in our sales and earnings, however, due to a seven-week strike at 13 of our White Front stores in the Los Angeles area.

Our sales gain was held to approximately 10 per cent, and our net earnings showed a modest increase. Sales for the year ended January 31, 1968 amounted to $558 million, which compares with $505 million the prior year. Net earnings after taxes totalled $10.2 million for the year ended January 31, 1968 and $9.8 million for the prior year. Last year's earnings were $2.16 a share based on an average of 4,715,291 shares outstanding; in the prior year, we earned $2.13 a share based on an average of 4,592,240 shares outstanding.

The increase in shares was due largely to the conversion of Convertible Subordinated Debentures and also to the exercise of stock options.

The Company declared a 5-for-4 stock split which was distributed on February 15, 1968. This was the Company's third stock split since 1961, the others being 3-for-1 and 2-for-1 in 1961 and 1964, respectively. Since we maintained the regular quarterly dividend rate of 15 cents a share on the larger number

SALES
(Millions)

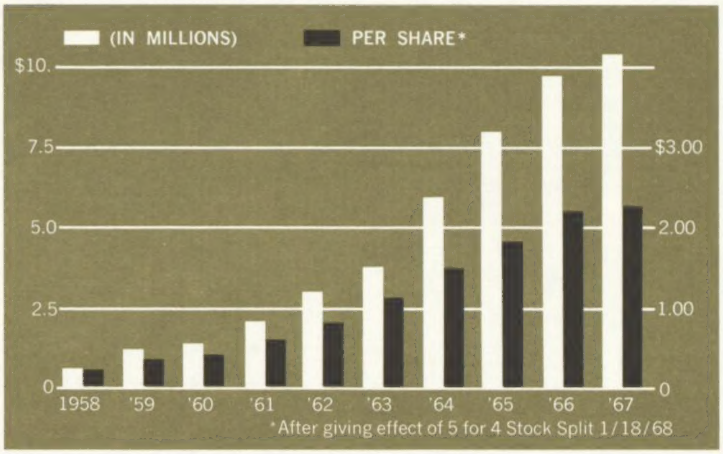


of shares resulting from the recent split, the effect has been an increase in the dividend rate. With the payment of four quarterly dividends in 1967, last year became the 28th year of consecutive cash dividends paid by your Company.

We strengthened the capital structure of the Company with the issuance of $20,000,000 in 4 per cent Convertible Subordinated Debentures due August 1, 1992. The prior issue of convertible securities was reduced by conversions to $1,041,000 by the end of the year. The new funds are being used to help finance the Company's active store opening program.

The Company's balance sheet showed numerous improvements over the prior year. Working capital increased to $56,409,000 from $37,641,000, with current assets amounting to 1.9 times current liabilities, as compared with 1.6 times the year before. Stockholders' equity stood at $66,706,000 for the recent year and $57,843,000 in 1966. It is noteworthy that stockholders' equity exceeded our total sales of $65 million just ten years ago, when we started our program of entering the discount merchandising field.

The seven-week strike at our White Front stores in the Los Angeles area was the longest and costliest in the Company's history. The settlement provided for a five-year contract and wage rates in line with that paid to employees of other discount units in the overall community.



NET EARNINGS

Last year was one of the most active in our history of store openings. The addition of 12 units was exceeded only in 1962 when the Company opened a total of 19 stores. We moved into the Pacific Northwest, a new area for our Company, with the opening of two White Front units in Seattle and Tacoma, Washington. The openings were among the most successful in our history and presage a further expansion in the area. We completed the reconstruction of our White Front store in the Watts area of Los Angeles, which had been completely demolished in the 1965 riots. New Topps units were opened in Chicago, Illinois; Terre Haute, Indiana; Louisville, Kentucky; Springfield, Massachusetts; two in Baltimore, Maryland; and Rochester and Buffalo, New York. A Children's Supermart store at Fairfax, Virginia and a conventional downtown department store in Aurora, Illinois were opened and a Topps unit in Green Bay, Wisconsin was closed.

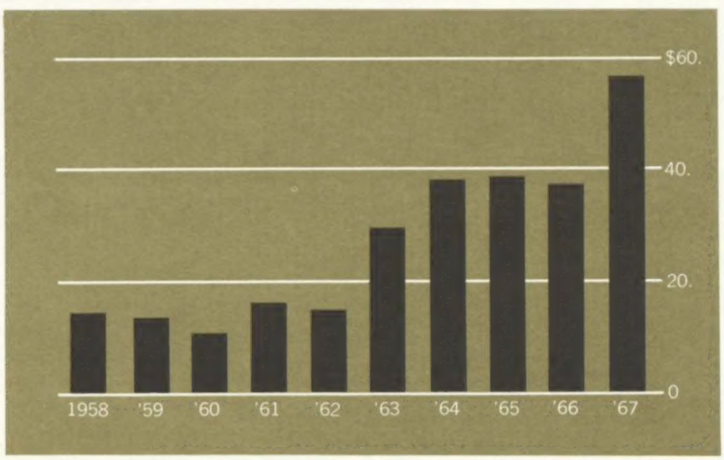
One of the more important developments in 1967 was the acquisition of the Seals Stadium site in San Francisco for $2.5 million. We are now constructing what will be the first major downtown department store to be built in San Francisco in over two decades. It will be the largest of the White Front stores with 170,000 square feet of space on two levels on an eight-and-a-half acre site. Scheduled for completion in the Fall, 1968, the store will serve a market of 750,000 people living within a radius of eight miles. With space for 900 automobiles, parking facilities will exceed those of any other store in downtown San Francisco. It will be complete with a supermarket, a gasoline and tire center, and a number of smaller shops, in addition to the basic White Front unit.

We plan to accelerate our program of opening new stores in the current year, with a target of 17 stores planned for this Spring and next Fall. Already opened are new Topps units in Ann Arbor, Michigan and Columbus, Ohio. We are scheduling store openings in Buffalo, New York and another at Columbus, Ohio this Spring and six more Topps units in the latter part of the year. On the West Coast, a White Front store was opened in Burien, Washington in March and another is scheduled in Southern California in addition to the Seals Stadium Store in the Fall. We expect to complete our third suburban store in Flint, Michigan early next year and plans for our group of Children's

Supermart stores call for three more units this year; one in Washington, D. C. and two in California. By the end of 1968, we hope to have 130 units serving communities in most geographical areas of the country.

Our rapid expansion has made the need for more efficient systems of controlling our operations increasingly important. We are now in the second stage of a very comprehensive program of computer utilization which, when completed, will provide a highly sophisticated data processing system. In the current stage, six of our stores are included experimentally in a program which provides management with daily sales and stock information on approximately 100,000 items of merchandise in each of the stores. In the next phase, this system will provide for automatic replenishment of merchandise. We hope to have this system, based on third generation computers, in effect throughout our Company within two to three years.

To strengthen the management of our widening operations on the West Coast, a branch of the Office of the President was established at the White Front stores division in Los Angeles, and Julian Lavitt, an Interstate Vice President, was appointed Executive Head of that Office. Mr. Lavitt has been associated with Interstate since 1938. Over the years, he rose through a succession of operations and merchandising posts and since



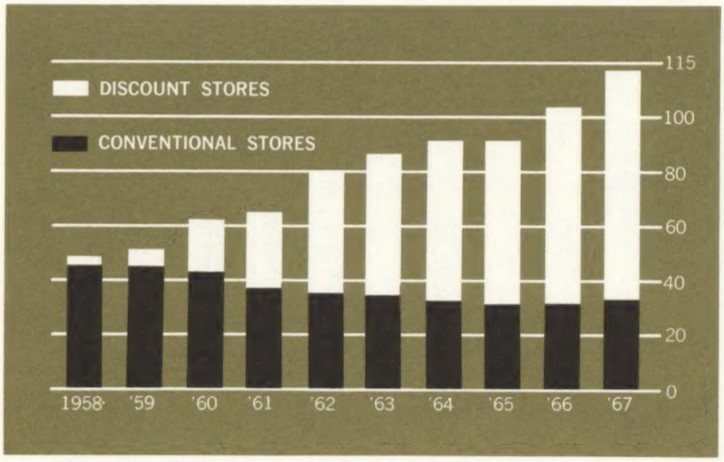
WORKING CAPITAL
(Millions)

1964 served as a Vice President and Director of the Company. As Executive Head, Mr. Lavitt is responsible for all operations of White Front, with Mr. Harry Epstein, Vice President of Interstate, heading up the management team reporting to him.

Last year was also a year of sadness. The Company lost two executives who had played important roles in its development. Murray D. Safanie, for many years the chief executive of Shearson, Hammill & Co. and most recently Honorary Chairman of its board, was Chairman of the Board of Interstate. The other was Barry Golden, whose career with Interstate spanned the postwar period, starting in January, 1946, when he joined the Company after leaving the Service. Mr. Golden became Vice President in 1952 and a member of the Board in 1957. The services of both will be missed and their many contributions to the Company's progress and success long remembered.

Looking into the future, we are impressed by the continuing vitality and growth ahead in discount merchandising. The field has become huge, with estimated sales of $17 billion last year. The discount field has grown at an average rate of $2 billion a year since 1958 and we believe that pace will continue and accelerate. There are many markets for discounters still untapped and many more where their penetration falls far short of saturation.

STORE EXPANSION



We foresee many changes ahead in discounting. Its new look will become more evident to customers in the surroundings in which they shop, the quality and selections of merchandise offered, the packaging and displays, advertising, and the availability of assistance. The total effect will be a dramatic presentation of the true values discounting offers the customer.

The current year will be one of our most active in terms of store openings and may come close to matching 1962, when we opened a total of 19 stores. We have the resources — personnel, funds, knowledge — to manage the growth planned for 1968 and beyond. We expect to make 1968 the tenth consecutive year in which sales and earnings surpass any prior year.

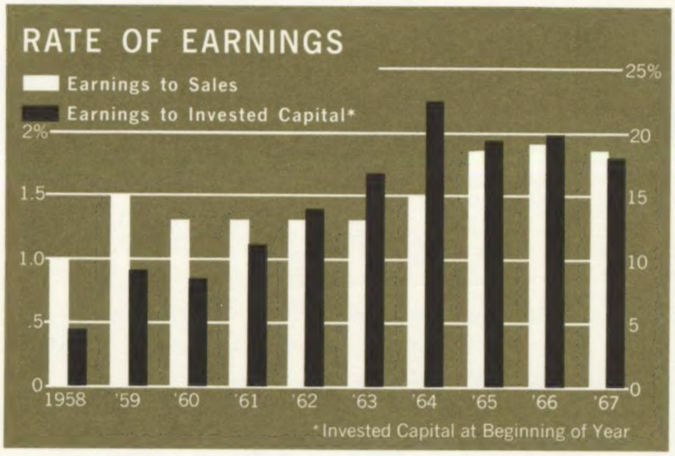
We are appreciative of the intensive efforts made by all members of the organization. The Company's continued success is a direct reflection of the dedication, loyalty, and enthusiasm with which they handled their responsibilities. We are confident that they will make 1968 the best year in our history.

Sincerely,

SWCantor

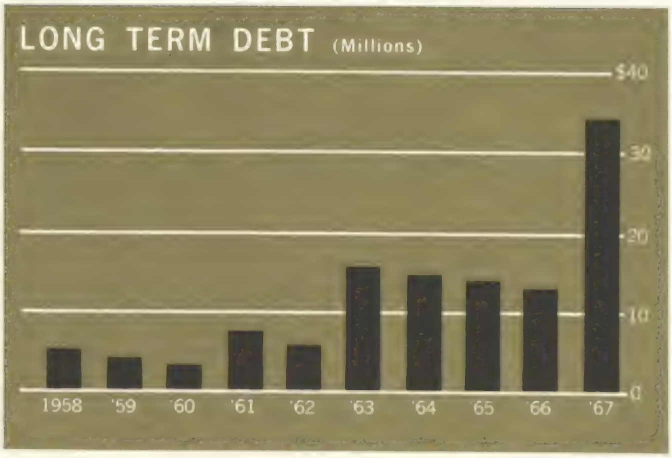
Sol W. Cantor
President

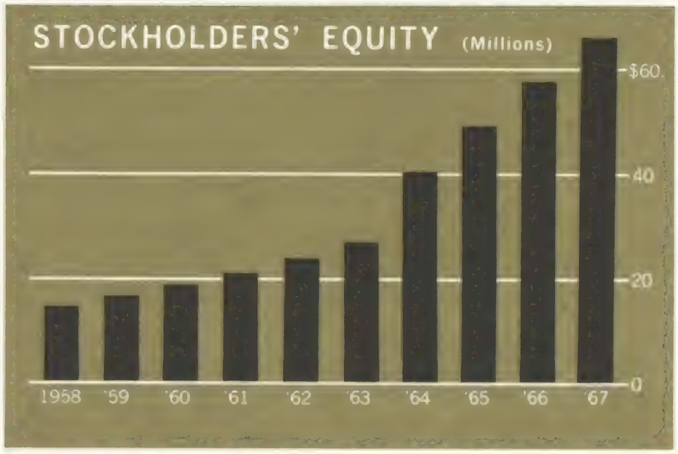
Ten Year Financial Review



OPERATIONS	1967	1966	1965	1964
Total Sales	**$558,082,000**	$505,017,000	$433,631,000	$384,867,000
Discount Store Sales	**493,599,000**	444,223,000	377,426,000	330,691,000
Conventional Store Sales	**64,483,000**	60,794,000	56,205,000	54,176,000
Net Income before Taxes	**17,797,000**	17,340,000	14,433,000	11,122,000
Net Income after Taxes	**10,197,000**	9,790,000	7,933,000	5,922,000
Earnings Per Share*	**2.16**	2.13	1.79	1.41
FINANCIAL				
Working Capital	**$56,409,000**	$ 37,641,000	$ 38,769,000	$ 37,618,000
Current Ratio	**1.9 to 1**	1.6 to 1	1.9 to 1	2.1 to 1
Total Assets	**165,610,000**	133,015,000	108,366,000	91,287,000
Fixed Assets	**37,228,000**	27,380,000	19,158,000	12,925,000
Long Term Debt	**34,732,000**	13,559,000	13,792,000	15,580,000
Stockholders' Equity	**66,706,000**	57,843,000	48,648,000	40,639,000
Dividends Per Share—Cash*	**.48**	.46	.39	.30
—Stock Dividends	**—**	4%	4%	4%
—Stock Splits	**5-for-4**	—	—	2-for-1
STORES				
Discount	**81**	70	59	58
Conventional	**32**	31	31	32
Total	**113**	101	90	90

**Based on average number of shares for each year, adjusted to give effect to all stock dividends and stock splits.*





1963	1962	1961	1960	1959	1958
$311,153,000	$222,807,000	$165,219,000	$114,311,000	$ 90,315,000	$ 65,674,000
256,375,000	167,481,000	108,462,000	55,255,000	26,620,000	688,000
54,778,000	55,326,000	56,757,000	59,056,000	63,695,000	64,986,000
7,122,000	5,249,000	3,829,000	2,385,000	2,309,000	1,005,000
3,907,000	2,909,000	2,079,000	1,490,000	1,394,000	645,000
1.05	.79	.57	.42	.41	.20
$ 28,178,000	$ 14,786,000	$ 14,904,000	$ 10,661,000	$ 12,798,000	$ 13,626,000
2.1 to 1	1.5 to 1	1.9 to 1	1.7 to 1	2.6 to 1	3.6 to 1
68,610,000	59,670,000	45,268,000	37,554,000	28,811,000	26,072,000
9,557,000	9,780,000	8,340,000	7,698,000	6,875,000	6,504,000
15,619,000	5,962,000	6,960,000	3,336,000	3,749,000	4,978,000
26,363,000	23,218,000	20,620,000	18,917,000	17,051,000	15,586,000
.22	.17	.14	.12	.12	.10
4%	4%	2%	5%	3%	3%
—	—	3-for-1	—	—	—
51	44	25	20	5	1
34	36	37	41	46	46
85	80	62	61	51	47

Consolidated Statement of Source and Application of Funds

	1967 (Year Ended Jan. 31, 1968)
Source of Funds	
Net earnings	$10,197,000
Depreciation and amortization	2,576,000
Increase in deferred Federal income taxes	542,000
Increase in long-term debt—net (including $20,000,000 gross proceeds from sale of Debentures and before deducting $490,000, net of related expenses, of Debentures converted into Common Stock)	21,663,000
Exercise of employee stock options	438,000
Sundry	18,000
	$35,434,000
Application of Funds	
Fixed assets acquired under modernization and expansion program—net	$12,424,000
Cash dividends	2,280,000
Increase in other assets, deferred charges and intangibles	1,962,000
Increase in working capital	18,768,000
	$35,434,000

Consolidated Statement of Earnings

	1967 (Year Ended Jan. 31, 1968)	1966 (Year Ended Jan. 31, 1967)
Net Sales:		
Owned departments	**$407,455,000**	$365,139,000
Leased departments	**150,627,000**	139,878,000
	558,082,000	505,017,000
Cost of Sales (including certain buying, occupancy and distribution expenses)	**456,623,000**	414,918,000
	101,459,000	90,099,000
Selling, General and Administrative Expenses	**86,042,000**	74,587,000
	15,417,000	15,512,000
Other Income—Net	**3,499,000**	2,534,000
	18,916,000	18,046,000
Interest Expense	**1,119,000**	706,000
Earnings before Federal Income Taxes	**17,797,000**	17,340,000
Provision for Federal Income Taxes	**7,600,000**	7,550,000
Net Earnings	**$ 10,197,000**	$ 9,790,000
Per share of Common Stock (based on average number of shares outstanding during each year)	**$2.16**	$2.13
Pro forma per share, reflecting conversion and contingent share issuances (Note I)	**$2.07**	$2.01

See accompanying notes to financial statements.

Consolidated Balance Sheet

ASSETS	1967 (Jan. 31, 1968)	1966 (Jan. 31, 1967)
Current Assets:		
Cash (including Certificates of Deposit) ...	**$ 16,126,000**	$ 9,839,000
Short-term investments—at cost	**1,066,000**	3,173,000
Accounts receivable:		
Customers (net of reserves of $588,000 and $605,000, respectively)	**9,941,000**	9,148,000
Other (Note G)	**8,187,000**	6,019,000
Merchandise inventories (Note A)	**80,874,000**	67,215,000
Prepaid expenses	**1,991,000**	2,006,000
Total Current Assets	**118,185,000**	97,400,000
Other Assets (Note G)	**1,888,000**	896,000
Fixed Assets—at cost (net of reserves of $10,173,000 and $8,213,000, respectively) (Note B)	**37,228,000**	27,380,000
Deferred Charges	**1,193,000**	655,000
Intangibles Applicable to Subsidiaries Acquired (Note C)	**7,116,000**	6,684,000
	$165,610,000	$133,015,000

See accompanying notes

LIABILITIES	1967 (Jan. 31, 1968)	1966 (Jan. 31, 1967)
Current Liabilities:		
Current installments of long-term debt (Notes B and C)	**$ 665,000**	$ 665,000
Accounts payable—trade	**44,241,000**	42,220,000
Accrued expenses and other liabilities	**9,762,000**	8,972,000
Taxes withheld and accrued, other than Federal income taxes	**3,091,000**	2,792,000
Accrued Federal income taxes	**4,017,000**	5,110,000
Total Current Liabilities	**61,776,000**	59,759,000
Deferred Federal Income Taxes	**2,396,000**	1,854,000
Long-term Debt (Notes B and C)	**34,732,000**	13,559,000
Total Liabilities	**98,904,000**	75,172,000
Stockholders' Equity (Notes C, D and E)	**66,706,000**	57,843,000
Lease Commitments and Other Comments (Notes F, G and H)		
	$165,610,000	$133,015,000

to financial statements.

Consolidated Statement of Stockholders' Equity

			1967 (Year Ended Jan. 31, 1968)	1966 (Year Ended Jan. 31, 1967)
Retained Earnings (at beginning of year):				
As previously reported			**$21,141,000**	$17,638,000
Adjustment				516,000
As restated			**21,141,000**	17,122,000
Net Earnings			**10,197,000**	9,790,000
			31,338,000	26,912,000
Dividends Declared:				
Cash			**2,280,000**	1,926,000
Stock				3,845,000
			2,280,000	5,771,000
Retained Earnings (at end of year) (Note C)			**29,058,000**	21,141,000
Capital Surplus (Notes C, D and E)			**31,659,000**	31,751,000
Common Stock (stated at par value of $1 per share, plus $1,271,000 retained as Capital by resolution of the Board of Directors) (Notes C, D and E)				
	Shares 1967	**Shares 1966**		
Authorized	**6,500,000**	6,500,000		
Issued	**3,833,000**	3,618,000		
To be issued	**958,000**	141,000		
	4,791,000	3,759,000	**6,062,000**	5,030,000
			66,779,000	57,922,000
Less: Treasury Stock — at cost — 17,000 and 15,000 shares, respectively			**73,000**	79,000
Stockholders' Equity			**$66,706,000**	$57,843,000

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

The financial statements as at and for the year ended January 31, 1967 are shown for comparative purposes only. Reference should be made to the previously issued annual report for the Accountants' Report and notes pertaining to those financial statements.

Note A—Merchandise inventories are stated at the lower of cost (generally retail method or invoice cost) or market.

Note B—Fixed assets comprise the following:

Land, land improvements and buildings	$10,490,000
Furniture and equipment	25,873,000
Leaseholds and leasehold improvements	11,038,000
	47,401,000
Less: Reserves for depreciation and amortization	10,173,000
	$37,228,000

Fixed assets having a depreciated cost of $5,766,000 are pledged as collateral for obligations of $4,855,000 included in long-term debt — other; see Note C.

Note C—Long-term debt consists of the following:

5⅜% Notes payable-insurance companies	$ 9,000,000
4⅝% Convertible Subordinated Debentures due August 1, 1981	1,041,000
4% Convertible Subordinated Debentures due August 1, 1992	20,000,000
Other (Note B)	5,356,000
	35,397,000
Less: Current installments	665,000
	$34,732,000

The 5⅜% Notes are payable $500,000 a year through 1976, $600,000 a year from 1977 through 1982 and $900,000 in 1983.

The indentures applicable to the 4⅝% and 4% Debentures require annual redemptions of $275,000 and $900,000, respectively, aggregating as follows: $275,000 through 1977, $1,175,000 from 1978 to 1980, and $900,000 from 1981 to 1991. Each Debenture's annual redemption requirement is subject to reduction, at the Company's option, for prior conversions which aggregate $4,819,000 (applicable solely to the 4⅝% Debentures) as at January 31, 1968. It is the Company's present intention to exercise this option. The 4⅝% and 4% Debentures may be converted into Common Stock at conversion prices of $9.40 and $45.00 a share, respectively. During the year, $504,000 of 4⅝% Debentures were converted into 43,000 shares of Common Stock, resulting in increases in Common Stock of $43,000 and in Capital Surplus of $447,000 (net of related unamortized debt discount and expense). Based upon the foregoing conversion prices, the outstanding Debentures at January 31, 1968 may be converted into 555,000 shares of Common Stock.

The Accounting Principles Board of the American Institute of Certified Public Accountants is presently studying the accounting treatment of convertible debentures. The provisions of a proposed new opinion of this Board may be required to be applied retroactively to the accompanying financial statements; the effect thereof on the results of operations would not be material.

In connection with a prior year purchase of a group of corporations, the Company may be required to pay additional amounts not to exceed $1,223,000 provided specified net earnings are achieved during the five years ending January 31, 1972.

Formulae contained in certain of the loan agreements limit the aggregate amount of cash dividends to approximately $17,900,000 as at January 31, 1968.

See Note G as to long-term debt (not included herein) of 50% owned corporations and joint ventures.

Note D—In January 1968, the Board of Directors declared a 5-for-4 stock split. The aggregate par value ($958,000) of the shares issuable in connection therewith has been credited to Common Stock and a like amount charged to Capital Surplus.

During the year Treasury Stock was credited for $6,000 and Capital Surplus was credited for $12,000 in connection with the issuance of 1,000 shares of Treasury Stock to a former employee.

Note E—Under the Company's stock option plan, options for 3,000 shares may be granted to September 1971 at not less than fair market value at date of grant; the options would be exercisable 25% a year (on a cumulative basis) commencing one year from date of grant and would expire five years from date of grant. During the year, options (1) were granted for 20,000 shares, (2) lapsed for 1,000 shares and (3) were exercised for 31,000 shares resulting in credits to Common Stock ($31,000) and Capital Surplus ($407,000). At January 31, 1968, options were outstanding for the purchase of 166,000 shares at prices ranging from $10.79 to $36.70 a share. The foregoing has been adjusted for the 5-for-4 stock split (see Note D).

In January 1968 the Company adopted, subject to stockholder approval, two qualified stock option plans for 150,000 shares each. The plans

terminate in 1973 and 1978, respectively, and provide for (1) option prices at not less than fair market value at date of grant and (2) expiration of the options five years from date of grant. Under one plan, options would be exercisable 25% a year (on a cumulative basis) commencing one year from date of grant; under the other plan, options would be exercisable in full after four years and nine months from date of grant.

Note F—Minimum annual rentals of real and personal property leased to the Company or to its subsidiaries amount to approximately $12,700,000 (including $3,520,000 applicable to the 50% owned corporations and joint ventures referred to in Note G) plus, in certain instances, additional rentals based upon sales and charges for real estate taxes, insurance, etc. Of the aggregate annual rentals, $4,350,000 expires prior to 1983, $3,500,000 expires between 1983 and 1987, and $4,850,000 expires after 1987.

Note G—Subsidiaries of the Company have 50% interests in a number of corporations and joint ventures, whose functions are to acquire properties, construct store buildings thereon and lease same to other subsidiaries; the investments in and advances to these companies aggregated $4,615,000 as at January 31, 1968. Of this amount, $3,335,000 is included in Accounts Receivable — Other and $1,280,000 is included in Other Assets. As at April 19, 1968, the Company had guaranteed bank indebtedness of one of the corporations amounting to $465,000; it is anticipated that this indebtedness will be refinanced on a long-term basis not subject to such guarantee.

As at their respective fiscal year-end dates (December 31, 1967 or January 31, 1968) long-term debt of 50%-owned corporations and joint ventures, not included in the consolidated balance sheet, aggregates $29,247,000. Of that amount, $19,917,000 represents obligations of 50% owned corporations and $9,330,000 represents mortgage indebtedness of the joint ventures, (as to $4,000,000 of which, subsidiaries of the Company are liable); the mortgages bear interest at annual rates of 5½% to 6⅞% and are payable in varying installments with final payments becoming due in 1986-1993. In addition, as at January 31, 1968, the joint ventures had received commitments for additional mortgage financing aggregating $11,685,000, as to which it is expected that subsidiaries of the Company will be liable for $4,000,000. Data included above with respect to joint ventures are based upon unaudited financial statements.

Note H—At January 31, 1968, the Company is contingently liable for $1,227,843 under an accommodation note (due December 1, 1988) that it issued in connection with a sale-leaseback during a prior year. This contingent liability is subject to reduction to the extent that the lessor makes required payments against a note issued by it.

In the opinion of management, pending litigation will not materially affect the accompanying consolidated financial statements.

Note I—Supplementary per-share data (based on the average number of shares of Common Stock outstanding during the year adjusted for the 5-for-4 stock split) give retroactive pro forma effect to the conversion of all outstanding debentures (with related interest, net of taxes, eliminated) and to the exercise of all outstanding stock options, as if the related issuances of Common Stock had taken place either at the beginning of the year, or during the year with respect to debentures and options issued in the current period.

For purposes of the pro forma computation, proceeds that would have been realized from exercise of options have been treated as though applied in payment of certain outstanding long-term debt, and the related interest, net of taxes, eliminated.

ACCOUNTANTS' REPORT

To the Board of Directors
Interstate Department Stores, Inc.
New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1968, and the related consolidated statements of earnings and stockholders' equity and the supplemental consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity present fairly the consolidated financial position of Interstate Department Stores, Inc., and subsidiary companies at January 31, 1968, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds presents fairly the supplemental information shown therein.

New York, N. Y.
April 19, 1968

S. D. LEIDESDORF & CO.
Certified Public Accountants

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

Sam J. Abend
Sol W. Cantor
Harry Epstein
Julian Lavitt
Selwyn Lemchen
Emanuel P. Lewis
M. Lester Mendell
Albert Parker
Paul D. Preger
Myron Schmittlinger
Harold J. Szold

OFFICERS

Sol W. Cantor, President
Sam J. Abend, Vice President
Group Manager, Department Store Division
Harry Epstein, Vice President
White Front Division
David Hughes, Vice President
Administration
Julian Lavitt, Vice President
General Manager, White Front Division
Selwyn Lemchen, Vice President
General Merchandise Manager
Myron Schmittlinger, Vice President
Director of Stores, Topps Division
Albert Parker, Secretary
Edward C. Schenkel, Treasurer and Ass't Secretary

TRANSFER AGENT

Bankers Trust Company, N. Y.

REGISTRAR

Manufacturers Hanover Trust Co., N. Y.

GENERAL COUNSEL

Parker, Chapin and Flattau, N. Y.

AUDITORS

S. D. Leidesdorf & Co., N. Y.

EXECUTIVE OFFICES

111 Eighth Avenue, New York, N. Y. 10011

Annual Meeting
Fourth Wednesday in May

Shares Listed
New York Stock Exchange—ISD